

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1676 - HB 1706

January 27, 2022

SUMMARY OF BILL: Deletes requirements for biennial audits of municipal governments in favor of annual audits performed by either a certified public accountant (CPA) or the Comptroller of the Treasury's (COT) Department of Audit and approved by the COT. Requires the governing body of the municipality to appropriate sufficient funds for the cost of each audit.

Authorizes the COT to appoint a CPA or a certified municipal finance officer (CMFO) to assist with preparing financial records for the audit if a municipality fails to prepare such records in a timely manner. Requires the municipality to pay the cost of these services.

Establishes that each audit is public record and subject to inspection.

FISCAL IMPACT:

Increase Local Expenditures – \$216,000/FY22-23 and Subsequent Years*

Assumptions:

- The proposed legislation authorizes the COT to appoint a CPA or CMFO to prepare the financial records for the audit of a municipality that fails to prepare such records in a timely manner.
- While municipalities currently pay for their annual financial and compliance audit, cities may incur an additional expense if the COT appoints a CPA or CMFO to prepare their financial records for audit.
- According to information provided by the COT, 471 municipal-related audits are reviewed by the COT each year. Of those audits, approximately 15 are typically considered "habitually late," or filed with the COT at least 12 months past the fiscal year for three consecutive years.
- It is estimated that no more than 15 municipal entities would require the service of a COT-appointed CPA or CMFO each year.
- It will require approximately 16 hours per month for a CPA or CMFO to prepare accounting records at a rate of \$75 per hour.
- It is estimated that this legislation will result in a mandatory increase in local government expenditures of \$14,400 per local municipal-related entity (16 hours per month x \$75 per hour x 12 months).

- It is estimated that this legislation will result in a mandatory increase in local government expenditures of \$216,000 (\$14,400 x 15 entities).
- Tennessee Code Annotated § 6-56-104 provides that the result of each biennial audit is to be kept as public record and subject to inspection; therefore, requiring the results of an annual audit to be kept as public record and subject to inspection will not result in any fiscal impact to local government.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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